

**Structure of Electricity Distribution Charges  
Implementation Steering Group (ISG)**

**22 June 2004, 2pm, Ofgem, 9 Millbank, London**

**Attendees:**

<b>Ofgem:</b>	Mark Cox (Chair) Martin Crouch David Young Clover Powell	
<b>DNOs:</b>	Andrew Neves Peter Merrick Tony McEntee Max Lalli Dave Harris	Central Networks EDF Energy SP Power Systems SSE WPD
<b>Supplier Reps:</b>	David Tolley	npower
<b>Generator Reps:</b>	David Porter Dave Sowden	RPA Micropower Council
<b>Apologies:</b>	Richard Smith Joe Hart Simon Brooke Malcolm Taylor Nick Carter Jeremy Nicholson Sebastian Eyre	Central Networks NEDL/YEDL United Utilities AEP BGT (Supplier Rep) EIUG (Customer Rep) energywatch (Customer Rep)

**1. Introduction**

Mark Cox welcomed those present to the meeting. He introduced Dave Sowden of the Micropower Council who had requested to attend and join the ISG.

**2. Actions from last meeting**

Ofgem were asked to confirm the process and timescale for enacting any changes to the Electricity Connection Charge Regulations. Mark Cox reported that Ofgem's opinion was that any changes to the E(CC) Regulations would take between three and six months subject to the detail of the proposed changes.

All other actions were completed.

**3. Update on licence modifications**

Mark Cox provided an update on the licence modification process. The modification issued on 6 April 2004 was blocked by eight of the fourteen distribution licence holders. Work was done to address DNOs' concerns during May, and a new proposed licence modification issued for statutory consultation on 1 June 2004. Martin Crouch confirmed that if the modification was passed, then it would be implemented very soon.

#### **4. Generator use of system charges (GDUoS)**

Mark Cox presented an Ofgem discussion paper on GDUoS which raised further issues for review and comment. A generator representative asked what the status of the paper was, and whether it should be treated as draft or final guidance. Mark Cox said that the paper reflected discussions held over the last few months within the ISG and its current status was for discussion. A final version would be produced soon.

##### *Consistency of methodology and statement*

It was noted that the Distribution Commercial Group (DCG) was working on templates for the new statements which may provide a level of consistency between DNOs' documents and also between the methodology statements themselves. It was noted that there would be some commonality in methodology through the work of the ISG and Ofgem guidance but it was recognised that there may still be differences between DNOs' methodologies from April 2005.

##### *Contractual relationships/supplier hub*

A supplier representative suggested that the charging methodology statements should outline the contractual framework for the new regime, explaining who the charges were aimed at, given that there would be parties contracted under the new regime and parties continuing under old established arrangements as well. The group also questioned whether there was sufficient flexibility in the current model DUoS to allow generators to deal direct with distributors.

A DNO representative asked for a generator opinion of what the benefits of dealing with distributors direct were, and whether it was felt that the supplier hub was overly complex. He also asked if it was possible to predict whether there would be a large number of applications for direct contracts between generators and DNOs. A generator representative said that there were some advantages in making the trading of generators' energy more straightforward, and he did not consider that this would undermine the supplier hub necessarily. Another generator representative noted that microgenerators were unlikely to have any interest in dealing with DNOs since most were domestic customers.

Mark Cox said that it would be important to make sure that the contractual framework was fit for purpose by the time the new regime came in: this included ensuring that the model DUoS was adequate, and where larger generators wanted to contract directly with the DNO that there were agreements available.

##### *Tariff structures: microgeneration*

A generator representative suggested that kW of capacity provided was not a suitable cost driver at LV, and that a capacity charge would not be cost reflective at this level. A supplier representative suggested that further down the system, average costs become more important than marginal costs, and generator capacities were more important at higher voltages. A DNO representative noted that DNOs would still be anticipating receiving the £1.5/kW incentive and £1/kW O&M allowances for LV connected generation, and would reflect this in charges. Martin Crouch said that it was appropriate that charges were cost reflective, not revenue reflective.

Mark Cox said that the treatment of any size of generation including microgeneration must take into account its economic impact on the system and the practicalities of billing these parties. A generator representative noted that a current study by Mott MacDonald for the DTI suggested that large scale penetration would not impose a significant cost, and that benefits from investment deferral and other cost savings would outweigh the direct costs created by “clustered” installations of microgeneration. The results of this study were to be presented at the Technical Steering Group (TSG) meeting on 20 July 2004 at Ofgem. The option for ISG members to attend the presentation would be investigated with the TSG chairman.

**Action: Dave Sowden**

#### *High cost projects*

A supplier representative asked whether the high cost project principle for generation was the same as that for demand. Mark Cox indicated that this was not the case.

#### *Capacity definition*

Mark Cox said that it was important to agree the definition of capacity (installed generator capacity or net export capacity) as this would affect how costs were recovered. A supplier representative suggested that one site might have two kVA values, one total capacity driving fault level costs and one export capacity and there was a need for this complexity to be reflected in GDUoS models. A DNO representative said that reflecting this in generic tariffs would be difficult and added further complexity to the charging structure. One DNO noted that they intended to use export capacity as the basis of their charge.

#### *Capacity variation*

Mark Cox asked whether the agreed capacity was something that was flexible and could be varied by the generator or would be fixed for a period, since this could be a significant issue with a small population within the charging regime and the charge being capacity based. A DNO representative said that demand capacities for certain types of customer sites were fixed at the time of connection for a period of five years, but could be varied (with notice) after this. Premiums were charged for over-supply.

#### *Tariff stability*

Mark Cox noted that the options for either capping tariffs or restricting their movement had already been discussed. A supplier representative asked whether this could result in DNOs over or under recovering, but Martin Crouch said that the revenue driver was fixed, giving a set revenue for a set quantity of generation. A rolling system like NGC’s was suggested, but Martin Crouch said that generators would be looking for more stability than this would provide. A DNO representative noted the problem that tariff caps were hard to apply without seeming to discriminate.

#### *Network access rebate payments*

Ofgem noted that the price control document would provide more detail on this topic. The intention was to design a system that would allow for flexibility.

### *Cost recovery basis - specific*

A DNO representative questioned whether it might be more appropriate to keep income from reactive power charges separate, but Ofgem indicated that there was a need to incentivise efficient management of the network.

A DNO representative confirmed that his company was not currently planning to recover NGC exit charges from generation, and a generator representative said that he did not think it appropriate that generators should pay these.

Mark Cox said that detailed comments on the issues raised by the paper would be appreciated as soon as possible. Ofgem would then collate these and return to the group with further views.

**Action: group members**

### **5. Proposed project timetable**

Mark Cox outlined the current proposed timetable and asked for views. A DNO representative warned that if the industry consultation on the charging methodologies threw up major concerns there would be insufficient time to make any major changes to methodologies and yet still gain approval in time to set charges for April 2005. DNO representatives agreed that the earlier concerns could be aired the better, and that there could be benefit in holding workshops for DNOs and Ofgem during the summer to highlight issues while time remained to resolve them. DNOs noted that in certain individual cases the Ofgem timetable did not fit with internal company plans, but these concerns would be discussed with Ofgem outside the meeting.

A generator representative said that he would be keen to have sight of the methodologies as soon as possible, and suggested that since the July submissions would not include numbers, these could be published straight away.

Ofgem agreed to review the timescales and deliverables and finalise the timetable as soon as possible.

**Action: Ofgem**

### **6. Charging methodologies: update on form and substance**

Ofgem noted that the DCG were working on templates for the new statements, and DNOs and Ofgem would be discussing these the following week.

### **7. AOB**

Ofgem told the group that requests had been received from Laing Energy (a prospective independent distributor) and the Micropower Council to join the ISG. Dave Sowden was now present and would continue to attend as representative of the Micropower Council. Laing Energy might attend in the future.

### **8. Date of next meeting**

Ofgem noted that the 20 July meeting might yet be subject to rearrangement. This would be due to reassessment of the timetable in light of comments provided during the present meeting.

Group members indicated that they would be interested in attending the Mott MacDonald presentation to the TSG (20 July at Ofgem) either as part of the day's ISG meeting, or independently, should the ISG be cancelled.